

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7550

Petition of Vermont Transco, LLC for Approval to)
Issue not to Exceed \$50 Million in Incremental)
Series S Bonds Pursuant to 30 V.S.A. § 108)

Order entered: 9/11/2009

I. INTRODUCTION

On August 11, 2009, Vermont Transco, LLC ("Transco" or "the Company") filed a petition (the "Petition") pursuant to 30 V.S.A. § 108 with the Vermont Public Service Board ("Board") seeking approval to issue first-mortgage bonds in an amount not to exceed \$50 million under its First Mortgage Indenture (the "Bonds"). The proceeds of the Bonds will be used to repay short-term indebtedness and to replace other long-term borrowings that would be required to fund Transco's ongoing capital projects. The Petition was supported by the prefiled testimony of Neal F. Robinson, the Company's Chief Financial Officer, and by accompanying exhibits.

On August 19, 2009, the Department of Public Service ("DPS") filed a letter with attached Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition, finding that the issuance of long-term debt as set forth in the Petition is consistent with the Vermont Electric Plan.

On August 26, 2009, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

On August 24, 2009, the Clerk of the Board issued a letter informing Transco that additional financial information in the form of Transco's audited statements for fiscal years 2007 and 2008 was needed in order to complete the review of the Petition.

On August 27, 2009, Transco filed the additional financial information.

II. FINDINGS

In accordance with 30 V.S.A. § 8, I hereby report the following findings and conclusions.

1. Vermont Transco, LLC, is a limited liability company subject to the jurisdiction of the Public Service Board. Petition at 1.

2. By Order dated August 6, 2009, in Docket No. 7531, the Public Service Board authorized Transco to issue First Mortgage Bonds in the principal amount of \$85 million, with maturities of 20 to 30 years, designated as Series S ("Series S" or "Series S bonds"), and to mortgage its property, including after-acquired property, as security therefor. Petition at 1.

3. On August 6, 2009, Transco completed marketing of the Series S issue and received bids totaling \$515 million. The cleared credit spread for the issuance was 96 basis points over the yield on the 10-year U.S. Treasury bonds enabling Transco to fix the interest rate on the Series S bonds at 4.81%. Given that Transco had forecasted rates of between 6% and 8% prior to the issuance, and based on its observations of activity in the private placement market in which rate spreads over the last two years generally ranged between 275 and 650 basis points over U.S. Treasury yields, Transco concludes that the fixed-rate pricing it obtained, and the positive investor response it received for the issuance, are highly favorable for the Company. As a result, on August 10, 2009, the Board of Directors for Vermont Electric Power Company, Inc., as Manager of Transco, approved a \$50 million increase in the Series S bond issuance from \$85 million to \$135 million. Accordingly, Transco requests Board approval to increase the Series S bond issuance by \$50 million through direct placement and under identical terms and conditions as the previous Series S issue. Robinson pf. at 2-3.

4. Transco will use the proceeds of the Bonds to pay down short-term indebtedness incurred in connection with Transco's Northwest Reliability Project and for future transmission projects. The proposed increase in funding will enable Transco to delay another bond issue scheduled for 2011. Robinson pf. at 4.

5. With the proposed new financing, Transco's capital structure will be comprised of 54.94% debt and 45.06% equity. Transco's goal is to maintain a capital structure of approximately 50% debt and 50% equity. With the planned issuance of additional equity units this year, Transco anticipates that its capital structure will return to the target ratio of 50/50 by

December 31, 2009 or early 2010. Robinson pf. at 5; exh. TRANSCO NER-2 Amended.

6. The lower borrowing costs for Transco will lower the all-in cost of the Company's construction projects and will lead to lower transmission charges to the Vermont distribution utilities and lower costs for Vermont ratepayers. Robinson pf. at 5-6.

7. Transco's financial advisors project that twenty-year fixed rate interest costs are likely to move higher in the private placement market a year from now. Therefore, Transco concludes that it is prudent to take advantage of the current borrowing opportunity and lock in the additional \$50 million at 4.81% rather than risk incurring higher interest charges over the near term. Robinson pf. at 6.

III. DISCUSSION & CONCLUSION

Based on the evidence, I conclude that Transco's request to add to the Series S bonds in an amount not to exceed \$50 million, through direct placement and secured under its First Mortgage Indenture, will be consistent with the general good of the state. The Bonds will provide an additional source of low-cost capital for Transco. However, I recommend that approval be conditioned upon Transco depositing the additional proceeds into a restricted account, to be recorded accordingly on the Company's corporate books, to ensure that those funds are earmarked and used for future construction projects as represented in the Petition. Therefore, I find that approval of Transco's request for long-term indebtedness as described above is consistent with the general good of the state and recommend that the Board issue an order to that effect.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

Dated at Montpelier, Vermont this 11th day of September, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, Conclusion, and recommendations of the Hearing Officer are adopted.
2. The Board consents to the additional issuance by Vermont Transco, LLC ("Transco" or "the Company") of first mortgage bonds, designated as Series S, in an amount not to exceed \$50 million and secured under its First Mortgage Indenture, as set forth in the findings, above. The proceeds from the additional issuance shall be placed in a restricted account, and recorded accordingly on Transco's corporate books, to be earmarked specifically to cover costs associated with Transco's future construction projects as approved by the Board.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Transco may implement. Nothing in this approval shall preclude the Vermont Department of Public Service ("Department") or any other party, or the Public Service Board ("Board"), from reviewing and/or challenging those expenditures and/or Transco's resulting capital structure in any future proceeding.
4. Transco shall inform the Board and the Department of any material change in the terms and conditions of the financing, if any, prior to closing.
5. Upon request, Transco shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 11th day of September, 2009.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: September 11, 2009

ATTEST: s/Susan M. Hudson
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.